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July 27, 2006

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, MA 02110

Re: NSTAR Electric/NSTAR Gas, D.T.E. 05-85

Dear Ms. Cottrell:

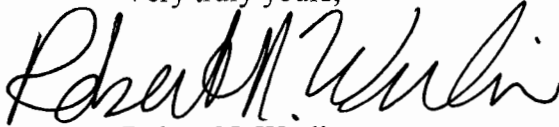
In compliance with the Department of Telecommunications and Energy's (the "Department") December 30, 2005 order (the "Order") approving the Settlement Agreement (the "Settlement Agreement") in D.T.E. 05-85, enclosed for filing are an original and five copies of the NSTAR Gas Company ("NSTAR Gas" or the "Company") Fixed Price Option ("FPO") Pilot Program together with an amended Default Service tariff, M.D.T.E. 403A, an amended Seasonal Cost of Gas Adjustment Clause, M.D.T.E. 401A, and an Explanatory Statement (the "Filing"). Also enclosed is a \$200 filing fee for the two tariffs.

Paragraph 2.22 of the Settlement Agreement, as approved by the Department of Telecommunications and Energy's (the "Department") Order, requires NSTAR Gas to develop a fixed-price option for residential and small commercial Default Service customers. In accordance with the terms of the Settlement Agreement, NSTAR Gas worked together with the Attorney General and the Low-Income Energy Affordability Network ("LEAN") on the design of the FPO Pilot Program. The Attorney General supports the Filing and LEAN does not oppose the Filing.

The Company requests approval of Tariff M.D.T.E. 403A and Tariff M.D.T.E. 401A and the terms of the FPO Pilot Program as detailed in the Explanatory Statement.

Letter to Secretary Cottrell
D.T.E. 05-85
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Thank you for your attention to this matter. Please do not hesitate to contact me should you have any questions.

Very truly yours,

Robert N. Werlin

cc: Service List, D.T.E. 05-85

TARIFFS

DEFAULT SERVICE

AVAILABILITY

Default Service ("Default Service") shall be available to any Customer who is not receiving Gas Service from a Supplier as set forth in the Company's Terms and Conditions.

APPLICABILITY

This tariff applies to all Customers receiving firm Gas commodity service from the Company pursuant to the Company's Terms and Conditions.

TERMS AND CONDITIONS

Service under this rate is subject to the Company's Terms and Conditions, in effect from time to time, where not inconsistent with any specific provisions herein.

CHARACTER OF SERVICE:

Gas containing not less than 1,000 Btu per cubic feet.

DEFAULT SERVICE RATES

The rate for Default Service shall be established in accordance with the provisions set forth in the Company's retail distribution service rates and its Seasonal Cost of Gas Adjustment Clause ("CGAC") as in effect from time to time. The date on which the rate for Default Service becomes effective shall coincide with the effective date of the seasonal Gas Adjustment Factors ("GAFs") as established by the CGAC.

The rate for Default Service applicable to customers in rate classes R-1, R-2, R-3, R-4, G-41 and G51 who have been approved by the Company for participation in the NSTAR Gas Fixed Price Option ("FPO") Pilot Program for the winter heating season beginning November 1st of each year shall be established in accordance with the provisions set forth in the Company's retail distribution service rates and its CGAC for the peak season, as approved by the Department for effect on or about November 1st of each year plus \$0.02 per therm. The GAF, as initially calculated and approved by the Department for effect November 1st, shall remain fixed for FPO Pilot Program customers for the remainder of the winter heating season. The rate for Default Service applicable to customers who have been approved by the Company for participation in the NSTAR Gas FPO Pilot Program for the off-peak season shall be established in accordance with the provisions set forth in the Company's retail distribution service rates and its Seasonal CGAC.

CUSTOMER NOTIFICATION

The Company will design a notice which explains in simple terms to Customers the rate for Default Service and the nature of any change in the rate. The Company will submit this notice for approval by the Massachusetts Department of Telecommunications and Energy ("M.D.T.E.") at the time of each GAF filing pursuant to the CGAC. Upon approval by the M.D.T.E., the Company shall immediately distribute these notices to all of its Customers taking Default Service either through direct mail or with its bills.

BILLING

Each Customer receiving Default Service shall receive one bill from the Company, reflecting unbundled charges for gas service. Charges for Default Service shall appear on the Customer's bill as the Cost of Gas under the heading Supplier Services.

SEASONAL COST OF GAS ADJUSTMENT CLAUSE**1.0 PURPOSE**

The Seasonal Cost of Gas Adjustment Clause ("CGAC") establishes the procedures that allow the Company, subject to the jurisdiction of the Massachusetts Department of Telecommunications and Energy ("M.D.T.E."), to adjust on a semi-annual basis, the Company's rates for firm gas sales, in order to recover the cost of gas supplies, along with any taxes applicable to those supplies, pipeline and storage capacity, the costs of local production and storage, other gas supply expenses incurred to procure and transport gas supplies, the costs of purchased gas working capital, and certain bad debt expenses to reflect the seasonal variation of gas costs. Further, the CGAC provides for the credit from all supplier refunds, from margins associated with capacity release, from off-system sales and from non-core gas sales.

2.0 APPLICABILITY

This CGAC is applicable to all core gas sales made by the Company, unless otherwise designated. As provided in Section 11.0, the application of this CGAC may, for good cause shown, be modified by the M.D.T.E..

3.0 COST OF GAS ALLOWABLE FOR CGAC

All costs of firm gas including, but not limited to, commodity costs, taxes on commodity, demand charges, local production and storage costs, other gas supply expenses incurred to procure and transport supplies, bad debt expense percent from the latest test year, transportation fees and costs associated with buyouts of existing contracts, and purchased gas working capital costs may be included in the CGAC. Any costs recovered through the application of this CGAC shall be identified and explained in the Company's semi-annual filings as outlined in Section 9.0. Non-core gas costs and the gas costs that are reflected in the Company's transportation rates are not recoverable through this CGAC.

4.0 EFFECTIVE DATE OF GAS ADJUSTMENT FACTOR

The date on which the seasonal Gas Adjustment Factors ("GAFs") become effective will be the first day of each season as designated by the Company. Unless otherwise notified by the M.D.T.E., the Company shall submit GAF filings as outlined in Section 9.0 at least 45 days before they are to take effect.

SEASONAL COST OF GAS ADJUSTMENT CLAUSE**5.0. DEFINITIONS**

The following terms shall be as defined in this Section, unless the context requires otherwise:

<u>Peak Season:</u>	The consecutive months November to April, inclusive.
<u>Off-Peak Season:</u>	The consecutive months May to October, inclusive.
<u>Therm:</u>	An amount of gas having a thermal content of 100,000 Btus.
<u>Peak Volume:</u>	Forecasted Peak Season core gas sales volumes in Therms.
<u>Off-Peak Volume:</u>	Forecasted Off-Peak Season core gas sales volumes in Therms.
<u>Total Volume:</u>	Forecasted core gas sales volumes in Therms for the combined Peak Season and Off-Peak Season, unless otherwise approved by the M.D.T.E..
<u>Peak Commodity:</u>	The gas supplies procured by the Company to serve the core load in the Peak Season.
<u>Off-Peak Commodity:</u>	The gas supplies procured by the Company to serve the core load in the Off-Peak Season.
<u>Annual Demand:</u>	The upstream transportation capacity procured by the Company to serve the core load on an annual basis.
<u>Storage Demand:</u>	The upstream storage capacity procured by the Company to serve the core load in the Peak Season.
<u>Local Production And Storage Costs:</u>	The costs of providing storage service from Company-owned storage facilities less costs included in the Company's transportation rates used to insure distribution system integrity, as approved by the M.D.T.E. from time to time.
<u>Inventory Finance Charges:</u>	The annual cost of financing gas inventories through a trust or other financing vehicle as billed in each Peak Season based upon prior Off-Peak Season charges.
<u>Supplier Refund:</u>	The per-unit supplier refunds associated with refund program credits derived from Account 242.640 as described in Section 7.0.

SEASONAL COST OF GAS ADJUSTMENT CLAUSE**5.0 DEFINITIONS (continued)**

<u>Number of Days Lag:</u>	The period of time between the purchased gas expense and revenue lags, as approved by the M.D.T.E. from time to time, to be used in the calculation of the working capital requirements.
<u>Working Capital Requirement:</u>	The allowable working capital derived from the sendout of the gas supplies.
<u>Working Capital Allowance:</u>	The allowable working capital cost per-unit collection rate derived from the Working Capital Requirement.
<u>Peak Working Capital Reconciling Adjustment:</u>	The balance in Account 175.400 as outlined in Section 8.3.
<u>Off-Peak Working Capital Reconciling Adjustment:</u>	The balance in Account 175.500 as outlined in Section 8.3.
<u>Effective Tax Rate:</u>	The combined effective state and federal income tax rates.
<u>Cost of Debt:</u>	The debt component of the rate of return as approved by the M.D.T.E. in the Company's most recent base rate case.
<u>Cost of Equity:</u>	The equity component of the rate of return as approved by the M.D.T.E. in the Company's most recent base rate case.
<u>Cost of Capital:</u>	The sum of the Cost of Debt and the Cost of Equity.
<u>Tax Adjusted Cost of Capital:</u>	The sum of (1) the Cost of Debt and (2) the Cost of Equity divided by one minus the Effective Tax Rate.
<u>Peak Reconciling Adjustment:</u>	The balance in Account 175.200, inclusive of the associated Account 175.020 interest, as outlined in Section 8.3.
<u>Off-Peak Reconciliation Adjustment:</u>	The balance in Account 175.100, inclusive of the associated Account 175.010 interest, as outlined in Section 8.3.
<u>Bad Debt:</u>	The uncollectible expense attributed to the Company's gas costs.

SEASONAL COST OF GAS ADJUSTMENT CLAUSE**5.0 DEFINITIONS (continued)**

<u>Bad Debt Factor:</u>	The allowable cost per-unit collection rate derived from the Bad Debt Expense.
<u>Peak Bad Debt Reconciliation Adjustment:</u>	The balance in Account 175.680, inclusive of the associated Account 175.680, interest, as outlined in Section 8.2.
<u>Off-Peak Bad Debt Reconciliation Adjustment:</u>	The balance in Account 175.660, inclusive of the associated Account 175.660, interest, as outlined in Section 8.2.
<u>Bad Debt Working Capital Requirement:</u>	The allowable working capital derived from the Bad Debt Expense.
<u>Bad Debt Working Capital Allowance:</u>	The allowable working capital cost per-unit collection rate derived from the Bad Debt Working Capital Requirement.
<u>Peak Bad Debt Working Capital Reconciling Adjustment:</u>	The sum of the balance in Account 175.690 as outlined in Section 8.3.
<u>Off-Peak Bad Debt Working Capital Reconciling Adjustment:</u>	The sum of the balance in Account 175.670 as outlined in Section 8.3.
<u>Gas Acquisition Expense:</u>	The costs incurred by the Company in its most recent test year to procure and transport gas supplies to the Company's city gate included in the test year of the Company's most recent base rate case as approved by the M.D.T.E plus costs pertaining to the implementation and administration of a Fixed Price Option program described in M.D.T.E. 403A.
<u>Economic Benefit:</u>	The difference between the revenue and the marginal cost determined to serve non-core Customers.
<u>Threshold Level:</u>	A level based on an historical twelve-month period ending April 30th of each year.

SEASONAL COST OF GAS ADJUSTMENT CLAUSE**5.0 DEFINITIONS (continued)**

<u>Non-Core Revenue Margin:</u>	The Economic Benefit from non-core transactions, as well as any margins earned on services rendered to Customers under contracts or service agreements in effect during the test year of the Company's most recent base rate case. Types of non-core transactions shall include, but not be limited to, capacity release, downstream capacity services to non-core Customers, non-core sales, and off-system sales. If the total credit for each type of non-core transactions exceeds the Threshold Level, then only seventy-five (75) percent of the credits earned in excess of the Threshold Level will be credited to the core gas sales Customers as established in DPU 93-141-A.
<u>Peak Season GAF:</u>	The per-unit charge, in \$/Therm, as determined by the formula set forth in Section 6.0 herein. The Peak GAF shall be calculated to the nearest hundredth of a cent per unit.
<u>Off-Peak Season GAF:</u>	The per-unit charge, in \$/Therm, as determined by the formula set forth in Section 6.0 herein. The Off-Peak GAF shall be calculated to the nearest hundredth of a cent per unit.
<u>Peak Demand Factor Revenues:</u>	The adjustment revenues associated with Peak Gas Supply that are collected from Customers pursuant to the Company's Rate Schedule G-53. The Peak Demand Factor shall equal \$3.14 per Therm of billing demand.
<u>Peak Energy Factor Credits:</u>	The adjustment credits associated with Peak Gas Supply that are returned to Customers pursuant to the Company's Rate Schedule G-53. The Peak Energy Credit Factor shall equal 16.68 cents per Therm.
<u>Off-Peak Demand Factor Revenues:</u>	The adjustment revenues associated with the Off-Peak Gas Supply that are collected from Customers pursuant to the Company's Rate Schedule G-53. The Off-Peak Demand Factor shall equal \$0.93 per Therm of billing demand.
<u>Off-Peak Energy Factor Credits:</u>	The adjustment credits associated with Off-Peak Gas Supply that are returned to Customers pursuant to the Company's Rate Schedule G-53. The Off-Peak Energy Credit Factor shall equal 5.71 cents per Therm.

SEASONAL COST OF GAS ADJUSTMENT CLAUSE**6.0 FORMULAS**

The GAFs shall be computed on a semi-annual basis using forecasts of seasonal gas costs, carrying charges, sendout volumes and sales volumes. Forecasts will be based on either historical data or Company projections and will be weather-normalized. All projections will be documented in full with each filing.

The Peak GAF and Off-Peak GAF formulas below form the basis for the calculation of the Peak Season and Off-Peak Season GAFs. The Peak GAF shall be calculated at the beginning of the Peak Season according to the following formula:

$$\text{Peak GAF} = \frac{\text{CCp} + \text{DCp} - \text{NFMp} + \text{ACp} + \text{RAp}}{\text{VOLp}} + \text{GWCp} - (\text{R1} + \text{R2})\text{p} + \text{BDCp} + \text{BDWCp}$$

and:

$$\text{DCp} = \text{ADC} * \text{PRp} + \text{SDC} + \text{LPD}$$

$$\text{GWCp} = \frac{\text{GWCRp} * (\text{CD} + (\text{CE}/(1-\text{TR}))) + \text{WCRecp}}{\text{VOLp}}$$

$$\text{GWCRp} = (\text{CCp} + \text{DCp} - \text{NFMp}) * (\text{DL}/365)$$

$$\text{BDCp} = \frac{(\text{BD} + \text{BDRecp}) * \text{PRp}}{\text{VOLp}}$$

$$\text{BDWCp} = \frac{(\text{BDWCR} * (\text{CD} + \text{CE}/(1-\text{TR})) + \text{BDWCrecp}) * \text{PRp}}{\text{VOLp}}$$

$$\text{BDWCR} = \text{BD} * (\text{DL}/365)$$

$$\text{PRp} = 1 - (\text{AVOLop} / \text{AVOLp} / 2)$$

SEASONAL COST OF GAS ADJUSTMENT CLAUSE**6.0 FORMULAS (continued)****Where:**

CCp	Cost of Peak Commodity supplies incurred to serve core load in the Peak Season
DCp	Demand Costs allocated to Peak Season
ADC	Annual Demand Costs
SCD	Storage Capacity Costs
LPD	Local Storage and Production Capacity costs
NFMp	Non-Firm margin allocated to Peak Season by the Peak Season PR factor
ACp	Gas Acquisition Expense allocated to Peak Season by the Peak Season PR Factor
RAp	Peak Season reconciliation factor
GWCP	Peak Season Gas working capital
GWCRp	Peak Season allocated gas working capital requirement
CD	Cost of Debt
CE	Cost of Equity
TR	Combined tax rate
WCrecp	Peak Season gas working capital reconciliation
DL	Days Lag
BDCp	Bad Debt costs allocated to Peak Season by Peak Season PR Factor
BD	Annual Bad Debt costs
BDRecp	Peak Bad Debt reconciling adjustment
BDWCp	Bad Debt working capital allocated to Peak Season by Peak Season PR Factor
BDWCR	Bad Debt working capital requirement
BDWCrecp	Peak Bad Debt working capital reconciliation
VOLp	Peak Season core sales volumes
AVOLp	Peak Season sendout volumes of gas supplies procured for annual load levels
PRp	Peak Season Proportional Allocation Factor

SEASONAL COST OF GAS ADJUSTMENT CLAUSE**6.0 FORMULAS (continued)**

The Off-Peak GAF shall be calculated for the Off-Peak Season according to the following formula:

$$\text{Off-Peak GAF} = \frac{\text{CCop} + \text{DCop} - \text{NFMop} + \text{ACop} + \text{RAop}}{\text{VOLop}} + \text{GWCop} - (\text{R1} + \text{R2})_{\text{op}} + \text{BDCop} + \text{BDWCop}$$

and:

$$\text{DCop} = \text{ADC} * \text{PProp} + \text{SDC} + \text{LPD}$$

$$\text{GWCop} = \frac{\text{GWCrop} * (\text{CD} + (\text{CE}/(1-\text{TR}))) + \text{WCRecop}}{\text{VOLop}}$$

$$\text{GWCrop} = (\text{CCop} + \text{DCop} - \text{NFMop}) * (\text{DL}/365)$$

$$\text{BDCop} = \frac{(\text{BD} + \text{BDRecop}) * \text{PProp}}{\text{VOLop}}$$

$$\text{BDWCop} = \frac{(\text{BDWCR} * (\text{CD} + \text{CE}/(1-\text{TR})) + \text{BDWCrecop}) * \text{PProp}}{\text{VOLop}}$$

$$\text{BDWCR} = \text{BD} * (\text{DL}/365)$$

$$\text{PProp} = (\text{AVOLop} / \text{AVOLp} / 2)$$

Where:

CCop	Cost of Off-Peak Commodity supplies incurred to serve core load in the Off-Peak Season
DCop	Demand Costs allocated to Off-Peak Season.
ADC	Annual Demand Costs
SCD	Storage Capacity Costs

SEASONAL COST OF GAS ADJUSTMENT CLAUSE**6.0 FORMULAS (continued)**

LPD	Local Storage and Production Capacity costs
NFMop	Non-Firm margin allocated to Off-Peak Season by the Off-Peak Season PR factor
ACop	Gas Acquisition Expense allocated to Off-Peak Season by the Off-Peak Season PR factor
RAop	Off-Peak Season reconciliation factor
GWCop	Off-Peak Season Gas working capital
GWCRop	Off-Peak Season allocated gas working capital requirement
CD	Cost of Debt
CE	Cost of Equity
TR	Combined tax rate
WCRecop	Off-Peak Season gas working capital reconciliation
DL	Days Lag
BDCop	Bad Debt costs allocated to Off-Peak Season by Off-Peak Season PR Factor
BD	Annual Bad Debt costs
BDRecop	Off-Peak Bad Debt reconciling adjustment
BDWCop	Bad Debt working capital allocated to Off-Peak Season by Off-Peak Season PR Factor
BDWCR	Bad Debt working capital requirement
BDWCrecop	Off-Peak Bad Debt working capital reconciliation
VOlop	Off-Peak Season core sales volumes
AVOLop	Off-Peak Season sendout volumes of gas supplies procured for annual load levels
PRop	Off-Peak Season Proportional Allocation Factor

7.0 GAS SUPPLIERS' REFUNDS

Refunds from suppliers of gas and feedstocks shall be credited to Account 242.640, "Undistributed Gas Suppliers' Refunds." Transfers from this account will reflect as a credit in the semi-annual calculation of the Peak GAF and Off-Peak GAF to be calculated as follows:

Refund programs shall be initiated with each semi-annual GAF filing and shall remain in effect for a period of one year. The total dollars to be placed into a given refund program shall be the net of over/under-returns from expired programs plus monies received from suppliers since the previous program was initiated. Monies to be refunded through each program shall be distributed through the use of per-unit refund factors that will return, over the one-year period, the principal amount of the refund plus interest as calculated using The Fleet Bank prime lending rate. The Company shall track and report on all Account 242.640 activities as specified in Section 9.0.

SEASONAL COST OF GAS ADJUSTMENT CLAUSE

8.0 RECONCILIATION ADJUSTMENTS

8.1 Gas Costs

- (a) Gas costs allowable per Peak Season GAF Formula:
- i. The Peak Season Commodity Cost;
 - ii. The allocated Peak Demand Cost;
 - iii. The Storage Demand Costs;
 - iv. The Local Production and Storage Cost;
 - v. The Peak Season Account 175.020 interest charges;
 - vi. The allocated Non-Core Revenue Margin; and
 - vii. The allocated Gas Acquisition Expense plus costs pertaining to the implementation and administration of a Fixed Price Option program described in M.D.T.E. 403A.
- (b) Account 175.200 shall contain the accumulated difference between the gas costs allowable per the Peak Season formula and the revenue collected through the operation of this rate schedule including adjustments for Peak Season Demand Factor Revenues and Peak Season Energy Factor Credits. Interest shall be calculated on the average monthly balance of this account using The Fleet Bank prime lending rate as charged to Account 175.020.
- (c) The Peak Season Reconciliation Adjustment shall be taken as the Account 175.200 balance as of October 31st of each year.
- (d) Gas costs allowable per Off-Peak Season GAF Formula:
- i. The Off-Peak Season Commodity Cost;
 - ii. The allocated Off-Peak Demand Cost;
 - iii. The Off-Peak Season Account 175.010 interest charges;
 - iv. The allocated Non-Core Revenue Margin; and
 - v. The allocated Gas Acquisition Expense.
- (e) Account 175.100 shall contain the accumulated difference between the gas costs allowable per the Off-Peak Season formula and the revenue collected through the operation of this rate schedule including adjustments for Off-Peak Demand Factor Revenues and Off-Peak Energy Factor Credits. Interest shall be calculated on the average monthly balance of this account using The Fleet Bank prime lending rate as charged to Account 175.010.
- (f) The Off-Peak Reconciliation Adjustment shall be taken as the Account 175.100 balance as of April 30th of each year.

SEASONAL COST OF GAS ADJUSTMENT CLAUSE

8.2 Bad Debt Costs

- (a) **Bad debt costs per Peak Season GAF Formula:**
- i. **Costs associated with uncollected gas costs, including any applicable taxes, incurred by the Company to serve core load;**
 - ii. **Interest charges; and**
 - iii. **The Peak Season Bad Debt Reconciliation Adjustment shall be taken as the Account 175.680 balance as of October 31st of each year.**
- (b) **Bad debt costs per Off-Peak Season GAF Formula:**
- i. **Costs associated with uncollected gas costs, including any applicable taxes, incurred by the Company to serve core load;**
 - ii. **Interest charges; and**
 - iii. **The Off-Peak Season Bad Debt Reconciliation Adjustment shall be taken as the Account 175.660 balance as of April 30th of each year.**
- (c) **Account 175.680 and Account 175.660 shall contain the accumulated difference between the bad debt costs allowable per the Peak Season and Off-Peak Season formulae, respectively, and the revenue collected through the operation of this rate schedule. Interest shall be calculated on the average monthly balance of these accounts using The Fleet Bank prime lending rate and shall then be added to each end-of-month balance.**

8.3 Working Capital Costs

- (a) **Working capital gas costs allowable per Peak Season GAF Formula:**
- i. **The Peak Season Commodity Cost;**
 - ii. **The allocated Peak Season Demand Charge; and**
 - iii. **The allocated Peak Season Non-Core Gas Cost.**
- (b) **Account 175.500 shall contain the accumulated difference between the Peak Season Gas Working Capital Allowance and the revenue toward Peak Season Gas Working Capital Allowance.**
- (c) **The Peak Season Gas Working Capital Reconciliation Adjustment shall be taken as the Account 175.500 balance as of October 31st of each year.**

SEASONAL COST OF GAS ADJUSTMENT CLAUSE

8.3 Working Capital Costs (continued)

- (d) Working capital gas costs allowable per Off-Peak GAF Formula:
 - i. The Off-Peak Season Commodity Costs;
 - ii. The allocated Off-Peak Season Demand Costs; and
 - iii. The allocated Off-Peak Season Non-Core Gas Cost.
- (e) Account 175.400 shall contain the accumulated difference between the Off-Peak Season Gas Working Capital Allowance and the revenue toward the Off-Peak Season Working Capital Allowance.
- (f) The Off-Peak Season Gas Working Capital Reconciliation Adjustment shall be taken as the Account 175.400 balance as of April 30th of each year.
- (g) Working capital bad debt costs allowable per Peak Season GAF formula:
 - i. Peak Season Charges associated with bad debt incurred by the Company to serve core load; and
 - ii. Bad debt carrying charges.
- (h) Account 175.690 shall contain the accumulated difference between the Peak Season Bad Debt Working Capital Allowance and the revenue toward the Peak Season Bad Debt Working Capital Allowance.
- (i) The Peak Season Bad Debt Working Capital Reconciliation Adjustment shall be taken as the Account 175.690 balance as of October 31st of each year.
- (j) Working capital bad debt expenses allowable per Off-Peak Season GAF formula:
 - i. Off-Peak Season Charges associated with bad debt incurred by the Company to serve core load; and
 - ii. Bad debt carrying charges.
- (k) Account 175.670 shall contain the accumulated difference between the Off-Peak Season Bad Debt Working Capital Allowance and the revenue toward the Off-Peak Season Bad Debt Working Capital Allowance.
- (l) The Off-Peak Season Bad Debt Working Capital Reconciliation Adjustment shall be taken as the Account 175.670 balance as of April 30th of each year.

SEASONAL COST OF GAS ADJUSTMENT CLAUSE

9.0 INFORMATION REQUIRED TO BE FILED WITH THE M.D.T.E.

The Company will file a monthly report, which shall be submitted to the M.D.T.E. on the twentieth of each month, and a semi-annual GAF filing, which shall be submitted to the M.D.T.E. least 45 days before the date on which a new GAF is to be effective.

Additionally, the Company shall file with the M.D.T.E. a complete list by (sub)account of all gas costs claimed as recoverable through the CGAC over the previous year, as included in the seasonal reconciliation. This information shall be submitted with each Peak and Off-Peak Season GAF filing, along with complete documentation of the reconciliation adjustment calculations.

10.0 GAS SUPPLY SERVICE CREDITS

Any revenue billed by the Company for gas supply services other than Default Service shall be credited to the total allowable gas costs prior to the calculation of the GAFs.

11.0 OTHER RULES

The M.D.T.E. may where appropriate, on petition or on its own motion, grant an exception from the provisions of the applicable regulations and this rate schedule, upon such terms that it may determine to be in the public interest.

At any time, the M.D.T.E. may require the Company to file, or the Company may file with the M.D.T.E., an amended GAF. Said filing must be submitted at least ten (10) days before the proposed effective date of the amended GAF.

The operation of this rate schedule is subject to all powers of suspension and investigation vested in the M.D.T.E. by Chapter 164 of the General Laws of the Commonwealth of Massachusetts.

The operation of this rate schedule shall be modified in accordance with applicable regulations to include the dollar amount of any reconciling adjustments computed under the Company's superseded Seasonal Cost of Gas Adjustment Clause (M.D.P.U. No. 271).

EXPLANATORY STATEMENT — D.T.E. 05-85
Compliance Filing for NSTAR Gas Fixed Price Option Pilot Program

This tariff filing is made in accordance with the terms of the Settlement Agreement approved by the Department in D.T.E. 05-85. This Explanatory Statement is intended to describe the NSTAR Gas Company (“NSTAR Gas” or the “Company”) FPO Pilot Program (the “FPO Pilot Program”) and associated tariff changes, which are supported by the accompanying exhibits.

Exhibit NSTAR-1 is a red-lined copy of the Company’s proposed Default Service Tariff, M.D.T.E. No. 403A, showing the changes from the Company’s existing Default Service Tariff, M.D.T.E. No. 403.

Exhibit NSTAR-2 is a red-lined copy of the Company’s proposed Seasonal Cost of Gas Adjustment Clause Tariff, M.D.T.E. No. 401A, showing the changes from the Company’s existing Seasonal Cost of Gas Adjustment Clause Tariff, M.D.T.E. No. 401.

Exhibit NSTAR-3 is an example calculation, which shows the forecasted revenues and costs of the proposed FPO Pilot Program for participants and non-participants. The exhibit demonstrates the absence of long-term subsidies between participating customers and non-participating customers.

I. DESCRIPTION OF FPO PILOT PROGRAM

A. Overview

In recognition of the increasing difficulty among customers to predict and adjust to fluctuating natural gas prices, especially during the winter heating season, NSTAR Gas agreed, as part of the Settlement Agreement in D.T.E. 05-85, to develop (in cooperation with the Attorney General and the Low-Income Energy Affordability Network (“LEAN”)) a fixed-rate option plan for residential and small commercial Default Service customers. See Settlement Agreement, paragraph 2.22. In response to paragraph 2.22 of the Settlement Agreement, NSTAR Gas has developed this FPO Pilot Program, which is supported by the Attorney General.

The FPO Pilot Program will offer NSTAR Gas’ residential and small commercial customers with the opportunity to participate in a program that provides a more stable, predictable gas price over the winter heating season. Currently, NSTAR Gas customers pay for natural gas according to the terms and conditions of the Company’s Seasonal Cost of Gas Adjustment Clause (“CGAC”), M.D.T.E. No. 401, which is designed to adjust the Company’s rates for firm gas sales on a semi-annual basis, reconciling for past period over-or under-recoveries. As noted by the Department, given gas prices throughout the 1980s and 1990s, both over- and under-recoveries tended to be small and manageable each year. Cost of Gas Adjustment Clause, D.T.E. 01-49-A at 1 (2001). However, as a result of supply constraints, weather conditions and market forces, there has been a more volatile market for natural gas. In response to this volatility, the Department required that all gas companies submit an amended Gas Adjustment Factors (“GAF”) whenever an LDC determines that its projected deferred gas-cost balance at the end of the peak period will be less than or greater than 5 percent of the total seasonal gas costs contained in the effective GAF. Id. at 10. Gas price volatility and the

associated amended GAFs applicable to customers during the winter heating season has led to a strong interest on the part of some customers to obtain a fixed price for natural gas that will be applicable throughout the entire winter heating season.

B. Description of the Pilot Program

The NSTAR Gas FPO Pilot Program will be available to all residential and small commercial customers within the Company's service territory who elect to participate in the FPO Pilot Program.¹ NSTAR Gas intends to inform customers of the option through direct mailings, as well as through customer-initiated telephone calls to customer-service representatives and the NSTAR website. Customer-information efforts will be focused on customer groups most likely to be interested in a fixed-price option, including customers on budget-billing plans, customers on service plans and low-income customers.

The FPO Pilot Program will allow customers to "lock in" the gas costs that have been incorporated within the Company's GAF calculation prior to the beginning of the winter heating season. Under the plan, participants protect non-participant from the risk of changing gas prices during the winter heating season by paying a \$0.02 per therm "premium" charge above the Company's otherwise applicable GAF, as approved by the Department. If during the course of the winter actual gas costs differ from the forecasted price levels, FPO Pilot Program participants will not be faced with mid-season adjustments. After the winter heating season is over, FPO Pilot Program participants will revert back to the Company's standard off-peak season GAF, as approved by the Department. Customers who elect to participate in the FPO Pilot Program are required to remain in the FPO Pilot Program for the entire winter heating season, but then may terminate participation thereafter. Before the beginning of the next heating season, the Company will notify each participant that it may end its participation, so long as it does so before the beginning of the next winter season.

All revenues from the FPO Pilot Program, including the \$0.02 per therm premium charge, will be flowed through the Company's tariffed CGAC calculation and used to reduce the actual gas costs otherwise experienced by all Default Service customers and to offset the incremental administrative and implementation costs incurred by the Company to offer the FPO Pilot Program. The CGAC will remain a fully reconciling mechanism that continues to allow dollar-for-dollar recovery of all Company gas costs, as currently allowed by the Department. To the extent that gas costs exceeded expectations during a particular winter heating season, the unrecovered gas costs will be recovered in the following winter heating season, as part of the normal GAF calculation. Similarly, where actual gas costs are lower than were forecast for the winter heating season, the over-recovered gas costs will be returned to all Default Service customers through the GAF calculation for the following winter heating season. Accordingly, NSTAR Gas will remain revenue neutral under the FPO Pilot Program.

¹ Customers in the following rate classes will be eligible to participate in the FPO Pilot Program: Rate R-1, Rate R-2, Rate R-3, Rate R-4, Rate G-41 and Rate G-51.

The premium paid by FPO Pilot Program participants will minimize the risk that non-participants will be adversely affected by the FPO Pilot Program. Under existing gas procurement practices, most of the Company's supply portfolio is fixed at the beginning of the heating season, to reduce price volatility as follows:

- one-third of the Company's normal winter volumes are physically hedged through the purchase and storage of summer supplies in underground storage or in LNG facilities before the winter heating season;
- One-third of the Company's normal winter volumes are financially hedged through the purchase of forward contracts based on NYMEX futures contracts; and
- One-third of the remaining Company gas volumes are market sensitive.

For participants in the FPO Pilot Program, the Company will financially hedge a portion of the final third of its portfolio applicable to the FPO Pilot Program, which otherwise would be subject to market fluctuations. The volume of gas that is hedged will be based on an estimate of the normal gas volumes associated with participants in the FPO Pilot Program. Thus, all or substantially all of the entire portfolio for participants will be fixed before the beginning of the heating season. If the volumes actually used by participants in the FPO Pilot Program are above or below "normal" usage, the cost of gas to serve participants could deviate from the projected cost. The \$0.02 per therm premium will protect non-participants for the risk that the cost to serve participants in the FPO Pilot Program will impose additional costs on non-participants. The \$0.02 per therm premium is intended to compensate non-participants: (1) for the risks of any potential gains or losses resulting from the FPO Pilot Program; and (2) for the incremental administrative and implementation costs incurred by the Company to offer the FPO Pilot Program. The price may be adjusted over time as the Company gains experience with the FPO Pilot Program to ensure that the payment is fully compensatory and that there are no cross subsidies by non-participants.

Exhibit NSTAR-3 describes realistic examples of potential volume and price variances, and their impact on non-participants.² There are four different possibilities that could affect the costs recovered by all customers in the CGA reconciliation. First, if market prices are above those anticipated and participant usage is above normal, then the higher costs would be included in the CGA reconciliation. Second, if market prices are below those anticipated and participant

² The range of price variations is based on the Fisher Black formula, a commonly used industry formula for developing distributions around a forward price. The range of usage variations is ± 9 percent based on the difference between NSTAR Gas' Department-approved design winter standard and the Department-approved normal-year standard. Thus, the +9 percent represents the volumes associated with a design cold winter, which would be an extreme overtake condition, and the -9 percent represents the volumes associated with a correspondingly warm winter, which would be an extreme undertake condition.

usage is above normal, then lower costs would be included in the CGA reconciliation. Third, if market prices are above those anticipated and participant usage is below normal, then lower costs would be included in the CGA reconciliation. Fourth, if market prices are below those anticipated and participant usage is below normal, then additional costs would be included in the CGA reconciliation. The Company expects to incur approximately \$140,000 over two years for changes in its billing system to accommodate the FPO Pilot Program and for customer-information expenses (e.g., direct mailings).³ Accordingly, the exhibit includes \$70,000 per year of incremental costs that is to be covered as part of the \$0.02 per therm premium. The exhibit shows that the premium revenues of \$0.02 per therm that are realized by non-participants will meet or exceed the amount of non-participants' exposure under a wide range of alternatives.

In order to ensure further that non-participants will not subsidize the FPO Pilot Program, the Company will monitor the total number of participants that enroll. In the unlikely event that 25 percent of eligible customers choose to enroll, the Company will evaluate the possible impact and consider suspending new enrollments after consultation with the Attorney General and LEAN. If it suspends new enrollments, the Company will inform the Department.

C. Implementation Schedule

The Company is planning to implement the enrollment process for the first annual cycle of the FPO Pilot Program beginning in mid-October 2006. This would require the Department to complete its review of the program by August 31, 2006, to provide sufficient time for the Company to begin making the necessary billing code adjustments to its billing system, inform eligible customers of the availability of the fixed-price option and enroll interested customers before the beginning of the winter season. The Company will file its standard winter CGA on or before September 15, 2006 for Department approval. The enrollment period for the FPO Pilot Program would extend from mid-October until mid-November 2006.

II. TERM OF THE FPO PILOT PROGRAM

The Company recognizes that the FPO Pilot Program would be the first such program approved for implementation in Massachusetts,⁴ and it intends to monitor both customer response, overall implementation costs and possible impacts on non-participants. Accordingly, the Company proposes that the FPO Pilot Program be offered for a minimum of two years in order to assess customer acceptance and program design. The Company would file a report with the Department after the two-year implementation period, detailing the results of the FPO Pilot Program and proposing any changes, as appropriate.

³ Although the exact amount of these administrative/implementation costs is not known with certainty, for purposes of the FPO Pilot Program, the Company will seek recovery over the initial two-year period of the lower of: (a) actual incremental costs incurred; or (b) \$140,000.

⁴ A similar program was implemented by KeySpan Energy Delivery New England in New Hampshire.

EXHIBIT NSTAR-1

DEFAULT SERVICE

AVAILABILITY

Default Service ("Default Service") shall be available to any Customer who is not receiving Gas Service from a Supplier as set forth in the Company's Terms and Conditions.

APPLICABILITY

This tariff applies to all Customers receiving firm Gas commodity service from the Company pursuant to the Company's Terms and Conditions.

TERMS AND CONDITIONS

Service under this rate is subject to the Company's Terms and Conditions, in effect from time to time, where not inconsistent with any specific provisions herein.

CHARACTER OF SERVICE:

Gas containing not less than 1,000 Btu per cubic feet.

DEFAULT SERVICE RATES

The rate for Default Service shall be established in accordance with the provisions set forth in the Company's retail distribution service rates and its Seasonal Cost of Gas Adjustment Clause ("CGAC") as in effect from time to time. The date on which the rate for Default Service becomes effective shall coincide with the effective date of the seasonal Gas Adjustment Factors ("GAFs") as established by the CGAC.

The rate for Default Service applicable to customers in rate classes R-1, R-2, R-3, R-4, G-41 and G51 who have been approved by the Company for participation in the NSTAR Gas Fixed Price Option ("FPO") Pilot Program for the winter heating season beginning November 1st of each year shall be established in accordance with the provisions set forth in the Company's retail distribution service rates and its CGAC for the peak season, as approved by the Department for effect on or about November 1st of each year plus \$0.02 per therm. The GAF, as initially calculated and approved by the Department for effect November 1st, shall remain fixed for FPO Pilot Program customers for the remainder of the winter heating season. The rate for Default Service applicable to customers who have been approved by the Company for participation in the NSTAR Gas FPO Pilot Program for the off-peak season shall be established in accordance with the provisions set forth in the Company's retail distribution service rates and its Seasonal CGAC.

CUSTOMER NOTIFICATION

The Company will design a notice which explains in simple terms to Customers the rate for Default Service and the nature of any change in the rate. The Company will submit this notice for approval by the Massachusetts Department of Telecommunications and Energy ("M.D.T.E.") at the time of

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each GAF filing pursuant to the CGAC. Upon approval by the M.D.T.E., the Company shall immediately distribute these notices to all of its Customers taking Default Service either through direct mail or with its bills.

BILLING

Each Customer receiving Default Service shall receive one bill from the Company, reflecting unbundled charges for gas service. Charges for Default Service shall appear on the Customer's bill as the Cost of Gas under the heading Supplier Services.

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EXHIBIT NSTAR-2

SEASONAL COST OF GAS ADJUSTMENT CLAUSE**1.0 PURPOSE**

The Seasonal Cost of Gas Adjustment Clause ("CGAC") establishes the procedures that allow the Company, subject to the jurisdiction of the Massachusetts Department of Telecommunications and Energy ("M.D.T.E."), to adjust on a semi-annual basis, the Company's rates for firm gas sales, in order to recover the cost of gas supplies, along with any taxes applicable to those supplies, pipeline and storage capacity, the costs of local production and storage, other gas supply expenses incurred to procure and transport gas supplies, the costs of purchased gas working capital, and certain bad debt expenses to reflect the seasonal variation of gas costs. Further, the CGAC provides for the credit from all supplier refunds, from margins associated with capacity release, from off-system sales and from non-core gas sales.

2.0 APPLICABILITY

This CGAC is applicable to all core gas sales made by the Company, unless otherwise designated. As provided in Section 11.0, the application of this CGAC may, for good cause shown, be modified by the M.D.T.E..

3.0 COST OF GAS ALLOWABLE FOR CGAC

All costs of firm gas including, but not limited to, commodity costs, taxes on commodity, demand charges, local production and storage costs, other gas supply expenses incurred to procure and transport supplies, bad debt expense percent from the latest test year, transportation fees and costs associated with buyouts of existing contracts, and purchased gas working capital costs may be included in the CGAC. Any costs recovered through the application of this CGAC shall be identified and explained in the Company's semi-annual filings as outlined in Section 9.0. Non-core gas costs and the gas costs that are reflected in the Company's transportation rates are not recoverable through this CGAC.

4.0 EFFECTIVE DATE OF GAS ADJUSTMENT FACTOR

The date on which the seasonal Gas Adjustment Factors ("GAFs") become effective will be the first day of each season as designated by the Company. Unless otherwise notified by the M.D.T.E., the Company shall submit GAF filings as outlined in Section 9.0 at least 45 days before they are to take effect.

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SEASONAL COST OF GAS ADJUSTMENT CLAUSE**5.0. DEFINITIONS**

The following terms shall be as defined in this Section, unless the context requires otherwise:

<u>Peak Season:</u>	The consecutive months November to April, inclusive.
<u>Off-Peak Season:</u>	The consecutive months May to October, inclusive.
<u>Therm:</u>	An amount of gas having a thermal content of 100,000 Btus.
<u>Peak Volume:</u>	Forecasted Peak Season core gas sales volumes in Therms.
<u>Off-Peak Volume:</u>	Forecasted Off-Peak Season core gas sales volumes in Therms.
<u>Total Volume:</u>	Forecasted core gas sales volumes in Therms for the combined Peak Season and Off-Peak Season, unless otherwise approved by the M.D.T.E..
<u>Peak Commodity:</u>	The gas supplies procured by the Company to serve the core load in the Peak Season.
<u>Off-Peak Commodity:</u>	The gas supplies procured by the Company to serve the core load in the Off-Peak Season.
<u>Annual Demand:</u>	The upstream transportation capacity procured by the Company to serve the core load on an annual basis.
<u>Storage Demand:</u>	The upstream storage capacity procured by the Company to serve the core load in the Peak Season.
<u>Local Production And Storage Costs:</u>	The costs of providing storage service from Company-owned storage facilities less costs included in the Company's transportation rates used to insure distribution system integrity, as approved by the M.D.T.E. from time to time.
<u>Inventory Finance Charges:</u>	The annual cost of financing gas inventories through a trust or other financing vehicle as billed in each Peak Season based upon prior Off-Peak Season charges.

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SEASONAL COST OF GAS ADJUSTMENT CLAUSE

Supplier Refund: The per-unit supplier refunds associated with refund program credits derived from Account 242.640 as described in Section 7.0.

5.0 DEFINITIONS (continued)

Number of Days Lag: The period of time between the purchased gas expense and revenue lags, as approved by the M.D.T.E. from time to time, to be used in the calculation of the working capital requirements.

Working Capital Requirement: The allowable working capital derived from the sendout of the gas supplies.

Working Capital Allowance: The allowable working capital cost per-unit collection rate derived from the Working Capital Requirement.

Peak Working Capital Reconciling Adjustment: The balance in Account 175.400 as outlined in Section 8.3.

Off-Peak Working Capital Reconciling Adjustment: The balance in Account 175.500 as outlined in Section 8.3.

Effective Tax Rate: The combined effective state and federal income tax rates.

Cost of Debt: The debt component of the rate of return as approved by the M.D.T.E. in the Company's most recent base rate case.

Cost of Equity: The equity component of the rate of return as approved by the M.D.T.E. in the Company's most recent base rate case.

Cost of Capital: The sum of the Cost of Debt and the Cost of Equity.

Tax Adjusted Cost of Capital: The sum of (1) the Cost of Debt and (2) the Cost of Equity divided by one minus the Effective Tax Rate.

Peak Reconciling Adjustment: The balance in Account 175.200, inclusive of the associated Account 175.020 interest, as outlined in Section 8.3.

SEASONAL COST OF GAS ADJUSTMENT CLAUSE

Off-Peak Reconciliation Adjustment: The balance in Account 175.100, inclusive of the associated Account 175.010 interest, as outlined in Section 8.3.

Bad Debt: The uncollectible expense attributed to the Company's gas costs.

5.0 DEFINITIONS (continued)

Bad Debt Factor: The allowable cost per-unit collection rate derived from the Bad Debt Expense.

Peak Bad Debt Reconciliation Adjustment: The balance in Account 175.680, inclusive of the associated Account 175.680, interest, as outlined in Section 8.2.

Off-Peak Bad Debt Reconciliation Adjustment: The balance in Account 175.660, inclusive of the associated Account 175.660, interest, as outlined in Section 8.2.

Bad Debt Working Capital Requirement: The allowable working capital derived from the Bad Debt Expense.

Bad Debt Working Capital Allowance: The allowable working capital cost per-unit collection rate derived from the Bad Debt Working Capital Requirement.

Peak Bad Debt Working Capital Reconciling Adjustment: The sum of the balance in Account 175.690 as outlined in Section 8.3.

Off-Peak Bad Debt Working Capital Reconciling Adjustment: The sum of the balance in Account 175.670 as outlined in Section 8.3.

Gas Acquisition Expense: The costs incurred by the Company in its most recent test year to procure and transport gas supplies to the Company's city gate included in the test year of the Company's most recent base rate case as approved by the M.D.T.E. plus costs pertaining to the implementation and administration of a Fixed Price Option program

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described in M.D.T.E. 403A.

Economic Benefit: The difference between the revenue and the marginal cost determined to serve non-core Customers.

Threshold Level: A level based on an historical twelve-month period ending April 30th of each year.

5.0 **DEFINITIONS** (continued)

Non-Core Revenue Margin: The Economic Benefit from non-core transactions, as well as any margins earned on services rendered to Customers under contracts or service agreements in effect during the test year of the Company's most recent base rate case. Types of non-core transactions shall include, but not be limited to, capacity release, downstream capacity services to non-core Customers, non-core sales, and off-system sales. If the total credit for each type of non-core transactions exceeds the Threshold Level, then only seventy-five (75) percent of the credits earned in excess of the Threshold Level will be credited to the core gas sales Customers as established in DPU 93-141-A.

Peak Season GAF: The per-unit charge, in \$/Therm, as determined by the formula set forth in Section 6.0 herein. The Peak GAF shall be calculated to the nearest hundredth of a cent per unit.

Off-Peak Season GAF: The per-unit charge, in \$/Therm, as determined by the formula set forth in Section 6.0 herein. The Off-Peak GAF shall be calculated to the nearest hundredth of a cent per unit.

Peak Demand Factor Revenues: The adjustment revenues associated with Peak Gas Supply that are collected from Customers pursuant to the Company's Rate Schedule G-53. The Peak Demand Factor shall equal \$3.14 per Therm of billing demand.

Peak Energy Factor Credits: The adjustment credits associated with Peak Gas Supply that are returned to Customers pursuant to the Company's Rate Schedule G-53. The Peak Energy Credit Factor shall equal 16.68 cents per Therm.

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Off-Peak Demand
Factor Revenues:

The adjustment revenues associated with the Off-Peak Gas Supply that are collected from Customers pursuant to the Company's Rate Schedule G-53. The Off-Peak Demand Factor shall equal \$0.93 per Therm of billing demand.

Off-Peak Energy
Factor Credits:

The adjustment credits associated with Off-Peak Gas Supply that are returned to Customers pursuant to the Company's Rate Schedule G-53. The Off-Peak Energy Credit Factor shall equal 5.71 cents per Therm.

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SEASONAL COST OF GAS ADJUSTMENT CLAUSE**6.0 FORMULAS**

The GAFs shall be computed on a semi-annual basis using forecasts of seasonal gas costs, carrying charges, sendout volumes and sales volumes. Forecasts will be based on either historical data or Company projections and will be weather-normalized. All projections will be documented in full with each filing.

The Peak GAF and Off-Peak GAF formulas below form the basis for the calculation of the Peak Season and Off-Peak Season GAFs. The Peak GAF shall be calculated at the beginning of the Peak Season according to the following formula:

$$\text{Peak GAF} = \frac{\text{CCp} + \text{DCp} - \text{NFMp} + \text{ACp} + \text{RAp}}{\text{VOLp}} + \text{GWCp} - (\text{R1} + \text{R2})\text{p} + \text{BDCp} + \text{BDWCp}$$

and:

$$\text{DCp} = \text{ADC} * \text{PRp} + \text{SDC} + \text{LPD}$$

$$\text{GWCp} = \frac{\text{GWCRp} * (\text{CD} + (\text{CE}/(1-\text{TR}))) + \text{WCRecp}}{\text{VOLp}}$$

$$\text{GWCRp} = (\text{CCp} + \text{DCp} - \text{NFMp}) * (\text{DL}/365)$$

$$\text{BDCp} = \frac{(\text{BD} + \text{BDRecp}) * \text{PRp}}{\text{VOLp}}$$

$$\text{BDWCp} = \frac{(\text{BDWCR} * (\text{CD} + \text{CE}/(1-\text{TR})) + \text{BDWCrecp}) * \text{PRp}}{\text{VOLp}}$$

$$\text{BDWCR} = \text{BD} * (\text{DL}/365)$$

$$\text{PRp} = 1 - (\text{AVOLop} / \text{AVOLp} / 2)$$

SEASONAL COST OF GAS ADJUSTMENT CLAUSE**6.0 FORMULAS (continued)**

Where:

CCp	Cost of Peak Commodity supplies incurred to serve core load in the Peak Season
DCp	Demand Costs allocated to Peak Season
ADC	Annual Demand Costs
SCD	Storage Capacity Costs
LPD	Local Storage and Production Capacity costs
NFMp	Non-Firm margin allocated to Peak Season by the Peak Season PR factor
ACp	Gas Acquisition Expense allocated to Peak Season by the Peak Season PR Factor
RAp	Peak Season reconciliation factor
GWCP	Peak Season Gas working capital
GWCRp	Peak Season allocated gas working capital requirement
CD	Cost of Debt
CE	Cost of Equity
TR	Combined tax rate
WCRecp	Peak Season gas working capital reconciliation
DL	Days Lag
BDCp	Bad Debt costs allocated to Peak Season by Peak Season PR Factor
BD	Annual Bad Debt costs
BDRcp	Peak Bad Debt reconciling adjustment
BDWCp	Bad Debt working capital allocated to Peak Season by Peak Season PR Factor
BDWCR	Bad Debt working capital requirement
BDWCrcp	Peak Bad Debt working capital reconciliation
VOLp	Peak Season core sales volumes
AVOLp	Peak Season sendout volumes of gas supplies procured for annual load levels
PRp	Peak Season Proportional Allocation Factor

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SEASONAL COST OF GAS ADJUSTMENT CLAUSE**6.0 FORMULAS (continued)**

The Off-Peak GAF shall be calculated for the Off-Peak Season according to the following formula:

$$\text{Off-Peak GAF} = \frac{\text{CCop} + \text{DCop} - \text{NFMop} + \text{ACop} + \text{RAop}}{\text{VOLop}} + \text{GWCop} - (\text{R1} + \text{R2})_{\text{op}} + \text{BDCop} + \text{BDWCop}$$

and:

$$\text{DCop} = \text{ADC} * \text{PProp} + \text{SDC} + \text{LPD}$$

$$\text{GWCop} = \frac{\text{GWCrop} * (\text{CD} + (\text{CE}/(1-\text{TR}))) + \text{WCRecop}}{\text{VOLop}}$$

$$\text{GWCrop} = (\text{CCop} + \text{DCop} - \text{NFMop}) * (\text{DL}/365)$$

$$\text{BDCop} = \frac{(\text{BD} + \text{BDRecop}) * \text{PProp}}{\text{VOLop}}$$

$$\text{BDWCop} = \frac{(\text{BDWCR} * (\text{CD} + \text{CE}/(1-\text{TR})) + \text{BDWCrecop}) * \text{PProp}}{\text{VOLop}}$$

$$\text{BDWCR} = \text{BD} * (\text{DL}/365)$$

$$\text{PProp} = (\text{AVOLop} / \text{AVOLp} / 2)$$

Where:

CCop	Cost of Off-Peak Commodity supplies incurred to serve core load in the Off-Peak Season
DCop	Demand Costs allocated to Off-Peak Season.
ADC	Annual Demand Costs

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SCD Storage Capacity Costs

6.0 FORMULAS (continued)

LPD	Local Storage and Production Capacity costs
NFMop	Non-Firm margin allocated to Off-Peak Season by the Off-Peak Season PR factor
ACop	Gas Acquisition Expense allocated to Off-Peak Season by the Off-Peak Season PR factor
RAop	Off-Peak Season reconciliation factor
GWCop	Off-Peak Season Gas working capital
GWCRop	Off-Peak Season allocated gas working capital requirement
CD	Cost of Debt
CE	Cost of Equity
TR	Combined tax rate
WCRcop	Off-Peak Season gas working capital reconciliation
DL	Days Lag
BDCop	Bad Debt costs allocated to Off-Peak Season by Off-Peak Season PR Factor
BD	Annual Bad Debt costs
BDRecop	Off-Peak Bad Debt reconciling adjustment
BDWCop	Bad Debt working capital allocated to Off-Peak Season by Off-Peak Season PR Factor
BDWCR	Bad Debt working capital requirement
BDWCrecop	Off-Peak Bad Debt working capital reconciliation
VOlop	Off-Peak Season core sales volumes
AVOlop	Off-Peak Season sendout volumes of gas supplies procured for annual load levels
PRop	Off-Peak Season Proportional Allocation Factor

7.0 GAS SUPPLIERS' REFUNDS

Refunds from suppliers of gas and feedstocks shall be credited to Account 242.640, "Undistributed Gas Suppliers' Refunds." Transfers from this account will reflect as a credit in the semi-annual calculation of the Peak GAF and Off-Peak GAF to be calculated as follows:

Refund programs shall be initiated with each semi-annual GAF filing and shall remain in effect for a period of one year. The total dollars to be placed into a given refund program shall be the net of over/under-returns from expired programs plus monies received from suppliers since the previous program was initiated. Monies to be refunded through each program shall be distributed through the use of per-unit refund factors that will return, over

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the one-year period, the principal amount of the refund plus interest as calculated using The Fleet Bank prime lending rate. The Company shall track and report on all Account 242.640 activities as specified in Section 9.0.

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8.0 RECONCILIATION ADJUSTMENTS

8.1 Gas Costs

- (a) Gas costs allowable per Peak Season GAF Formula:
- i. The Peak Season Commodity Cost;
 - ii. The allocated Peak Demand Cost;
 - iii. The Storage Demand Costs;
 - iv. The Local Production and Storage Cost;
 - v. The Peak Season Account 175.020 interest charges;
 - vi. The allocated Non-Core Revenue Margin; and
 - vii. The allocated Gas Acquisition Expense plus costs pertaining to the implementation and administration of a Fixed Price Option program described in M.D.T.E. 403A.
- (b) Account 175.200 shall contain the accumulated difference between the gas costs allowable per the Peak Season formula and the revenue collected through the operation of this rate schedule including adjustments for Peak Season Demand Factor Revenues and Peak Season Energy Factor Credits. Interest shall be calculated on the average monthly balance of this account using The Fleet Bank prime lending rate as charged to Account 175.020.
- (c) The Peak Season Reconciliation Adjustment shall be taken as the Account 175.200 balance as of October 31st of each year.
- (d) Gas costs allowable per Off-Peak Season GAF Formula:
- i. The Off-Peak Season Commodity Cost;
 - ii. The allocated Off-Peak Demand Cost;
 - iii. The Off-Peak Season Account 175.010 interest charges;
 - iv. The allocated Non-Core Revenue Margin; and
 - v. The allocated Gas Acquisition Expense.
- (e) Account 175.100 shall contain the accumulated difference between the gas costs allowable per the Off-Peak Season formula and the revenue collected through the operation of this rate schedule including adjustments for Off-Peak Demand Factor Revenues and Off-Peak Energy Factor Credits. Interest shall be calculated on the average monthly balance of this account using The Fleet Bank prime lending rate as charged to Account 175.010.

SEASONAL COST OF GAS ADJUSTMENT CLAUSE

- (f) The Off-Peak Reconciliation Adjustment shall be taken as the Account 175.100 balance as of April 30th of each year.

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SEASONAL COST OF GAS ADJUSTMENT CLAUSE

8.2 Bad Debt Costs

- (a) **Bad debt costs per Peak Season GAF Formula:**
- i. **Costs associated with uncollected gas costs, including any applicable taxes, incurred by the Company to serve core load;**
 - ii. **Interest charges; and**
 - iii. **The Peak Season Bad Debt Reconciliation Adjustment shall be taken as the Account 175.680 balance as of October 31st of each year.**
- (b) **Bad debt costs per Off-Peak Season GAF Formula:**
- i. **Costs associated with uncollected gas costs, including any applicable taxes, incurred by the Company to serve core load;**
 - ii. **Interest charges; and**
 - iii. **The Off-Peak Season Bad Debt Reconciliation Adjustment shall be taken as the Account 175.660 balance as of April 30th of each year.**
- (c) **Account 175.680 and Account 175.660 shall contain the accumulated difference between the bad debt costs allowable per the Peak Season and Off-Peak Season formulae, respectively, and the revenue collected through the operation of this rate schedule. Interest shall be calculated on the average monthly balance of these accounts using The Fleet Bank prime lending rate and shall then be added to each end-of-month balance.**

8.3 Working Capital Costs

- (a) **Working capital gas costs allowable per Peak Season GAF Formula:**
- i. **The Peak Season Commodity Cost;**
 - ii. **The allocated Peak Season Demand Charge; and**
 - iii. **The allocated Peak Season Non-Core Gas Cost.**
- (b) **Account 175.500 shall contain the accumulated difference between the Peak Season Gas Working Capital Allowance and the revenue toward Peak Season Gas Working Capital Allowance.**
- (c) **The Peak Season Gas Working Capital Reconciliation Adjustment shall be taken as the Account 175.500 balance as of October 31st of each year.**

SEASONAL COST OF GAS ADJUSTMENT CLAUSE

8.3 Working Capital Costs (continued)

- (d) Working capital gas costs allowable per Off-Peak GAF Formula:
- i. The Off-Peak Season Commodity Costs;
 - ii. The allocated Off-Peak Season Demand Costs; and
 - iii. The allocated Off-Peak Season Non-Core Gas Cost.
- (e) Account 175.400 shall contain the accumulated difference between the Off-Peak Season Gas Working Capital Allowance and the revenue toward the Off-Peak Season Working Capital Allowance.
- (f) The Off-Peak Season Gas Working Capital Reconciliation Adjustment shall be taken as the Account 175.400 balance as of April 30th of each year.
- (g) Working capital bad debt costs allowable per Peak Season GAF formula:
- i. Peak Season Charges associated with bad debt incurred by the Company to serve core load; and
 - ii. Bad debt carrying charges.
- (h) Account 175.690 shall contain the accumulated difference between the Peak Season Bad Debt Working Capital Allowance and the revenue toward the Peak Season Bad Debt Working Capital Allowance.
- (i) The Peak Season Bad Debt Working Capital Reconciliation Adjustment shall be taken as the Account 175.690 balance as of October 31st of each year.
- (j) Working capital bad debt expenses allowable per Off-Peak Season GAF formula:
- i. Off-Peak Season Charges associated with bad debt incurred by the Company to serve core load; and
 - ii. Bad debt carrying charges.
- (k) Account 175.670 shall contain the accumulated difference between the Off-Peak Season Bad Debt Working Capital Allowance and the revenue toward the Off-Peak Season Bad Debt Working Capital Allowance.

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SEASONAL COST OF GAS ADJUSTMENT CLAUSE

- (l) The Off-Peak Season Bad Debt Working Capital Reconciliation Adjustment shall be taken as the Account 175.670 balance as of April 30th of each year.

9.0 INFORMATION REQUIRED TO BE FILED WITH THE M.D.T.E.

The Company will file a monthly report, which shall be submitted to the M.D.T.E. on the twentieth of each month, and a semi-annual GAF filing, which shall be submitted to the M.D.T.E. least 45 days before the date on which a new GAF is to be effective.

Additionally, the Company shall file with the M.D.T.E. a complete list by (sub)account of all gas costs claimed as recoverable through the CGAC over the previous year, as included in the seasonal reconciliation. This information shall be submitted with each Peak and Off-Peak Season GAF filing, along with complete documentation of the reconciliation adjustment calculations.

10.0 GAS SUPPLY SERVICE CREDITS

Any revenue billed by the Company for gas supply services other than Default Service shall be credited to the total allowable gas costs prior to the calculation of the GAFs.

11.0 OTHER RULES

The M.D.T.E. may where appropriate, on petition or on its own motion, grant an exception from the provisions of the applicable regulations and this rate schedule, upon such terms that it may determine to be in the public interest.

At any time, the M.D.T.E. may require the Company to file, or the Company may file with the M.D.T.E., an amended GAF. Said filing must be submitted at least ten (10) days before the proposed effective date of the amended GAF.

The operation of this rate schedule is subject to all powers of suspension and investigation vested in the M.D.T.E. by Chapter 164 of the General Laws of the Commonwealth of Massachusetts.

The operation of this rate schedule shall be modified in accordance with applicable regulations to include the dollar amount of any reconciling adjustments computed under the

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SEASONAL COST OF GAS ADJUSTMENT CLAUSE

Company's superseded Seasonal Cost of Gas Adjustment Clause (M.D.P.U. No. 271).

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EXHIBIT NSTAR-3

Volume and Price Variances

Impact to Non-Participants

	Non-Participant (loss) If Prices go down (\$)	Non-Participant Gain if prices go up (\$)
	\$	\$
Usage 9% Below Normal	(202,146)	275,844
Premium adder \$0.20/DTH	<u>277,457</u>	<u>277,457</u>
Commodity Gain (Loss)	75,311	553,301
Ave. Administrative Cost	<u>70,000</u>	<u>70,000</u>
Net Gain (Loss)	5,311	483,301
Usage 9% Above Normal	202,146	(275,844)
Premium adder \$0.20/Dth	<u>332,339</u>	<u>332,339</u>
Commodity Gain (Loss)	534,485	56,495
Ave. Administrative Cost	<u>70,000</u>	<u>70,000</u>
Net Gain (Loss)	464,455	(13,505)

Usage 9% Above Normal – Design Cold

	NYMEX Strip	Implied volatility	Usage Adjuster (% variation from normal)	Volume (mmbtu)	Non-Participant Gain if prices go down(\$)	Non-Participant Loss if prices go up(\$)
Nov	9.594	61.93%	9%	62,505	\$ 14,512	\$ (17,483)
Dec	10.824	57.12%	9%	97,203	\$ 31,936	\$ (40,607)
Jan	11.524	56.88%	9%	114,612	\$ 47,528	\$ (63,679)
Feb	11.589	57.80%	9%	99,281	\$ 47,187	\$ (66,436)
Mar	11.389	58.98%	9%	83,040	\$ 42,679	\$ (62,720)
Apr	9.439	42.71%	9%	51,523	\$ 18,304	\$ (24,919)

Total				508,164		
Value Date	Oct-06				Total	\$ 202,146
		Premium	\$ 0.20		Collection	\$ 332,339
					Gain (loss)	\$ 534,485
						\$ 56,496

					Low	High
					Sigma -1.645	Sigma 1.645
Mth	Price	Volatility	Time		Price Distribution	
Nov-06	\$ 9.59	62%	0.08		\$ 7.01	\$ 12.70
Dec-06	\$ 10.82	57%	0.17		\$ 7.17	\$ 15.47
Jan-07	\$ 11.52	57%	0.25		\$ 6.92	\$ 17.70
Feb-07	\$ 11.59	58%	0.34		\$ 6.31	\$ 19.02
Mar-07	\$ 11.39	59%	0.41		\$ 5.68	\$ 19.78
Apr-07	\$ 9.44	43%	0.50		\$ 5.49	\$ 14.81

Usage 9% Below Normal – Warm Winter

	NYMEX Strip	Implied volatility	Usage Adjuster (%) variation from normal)	Normal Volume (mmbtu)	Non-Participant Loss if prices go down(\$)	Non-Participant Gain if prices go up(\$)
Nov	9.594	61.93%	-9%	62,505	\$ (14,511.69)	\$ 17,482.80
Dec	10.824	57.12%	-9%	97,203	\$ (31,936.45)	\$ 40,607.02
Jan	11.524	56.88%	-9%	114,612	\$ (47,527.54)	\$ 63,678.75
Feb	11.589	57.80%	-9%	99,281	\$ (47,187.44)	\$ 66,436.30
Mar	11.389	58.98%	-9%	83,040	\$ (42,679.42)	\$ 62,720.01
Apr	9.439	42.71%	-9%	51,523	\$ (18,303.59)	\$ 24,918.63

Total

Value Date	Oct-06		508,164	Total	\$ (202,146)	\$ 275,844
		Premium	\$ 0.20	Collection	\$ 277,457	\$ 277,457
				Gain(loss)	75,311	553,301

					Low	High
					Sigma -1.645	Sigma 1.645
Mth	Price	Volatility	Time		Price Distribution	
Nov-06	\$ 9.59	62%	0.08		\$ 7.01	\$ 12.70
Dec-06	\$ 10.82	57%	0.17		\$ 7.17	\$ 15.47
Jan-07	\$ 11.52	57%	0.25		\$ 6.92	\$ 17.70
Feb-07	\$ 11.59	58%	0.34		\$ 6.31	\$ 19.02
Mar-07	\$ 11.39	59%	0.41		\$ 5.68	\$ 19.78
Apr-07	\$ 9.44	43%	0.50		\$ 5.49	\$ 14.81